

Report of the Treasurer

Mr. Peter Stoll

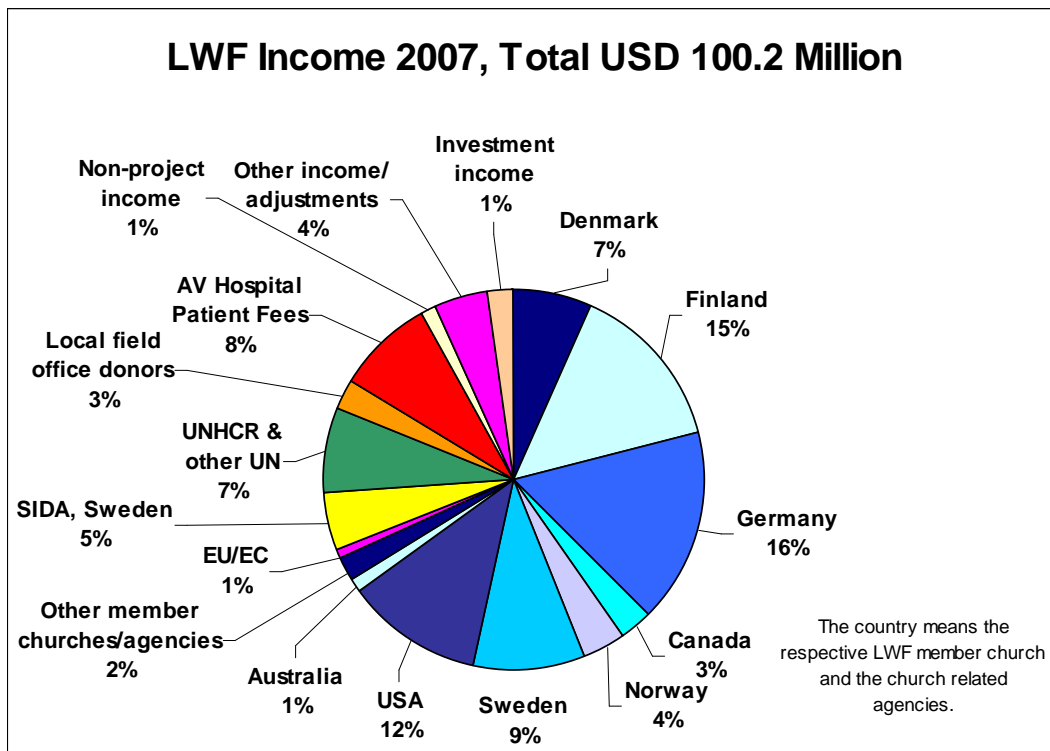
The Impact of Global Trends – Financial and Operational Consequences for the LWF

- 1) The Lutheran World Federation is a global communion. So it may seem obvious that global trends should have an impact on the LWF. Well, that is certainly the case. But I am talking about direct impacts on our finances, our operational risks and our operational procedures. These impacts have hardly ever been stronger than nowadays.
- 2) What are the global trends which have an impact on us? The biggest one is the movement in the exchange rates. The US-Dollar, the Swiss Franc, the Euro and the Scandinavian currencies are the most relevant currencies for the LWF. Their exchange rates have a huge impact on our financial results and on the budgets that we are planning.
- 3) The global economic development has a strong impact on the ability of some of our member churches to pay their contributions to the LWF, as well as on the performance of our investments. This has an impact on our reserves and on the Pension Fund.
- 4) It is with pain that we learned since our assembly in Winnipeg that barriers between the Global South and Europe or northern America have been reinforced by such means as complicating visa procedures. This is now having a growing impact on our ability to even interview candidates for jobs in Geneva.
- 5) In our globalized world we are in need of international rules of good governance, e.g. to hold international companies responsible for their actions. Some of these rules have an impact on the LWF and its operational procedures. We have to present our accounts in compliance with International Financial Reporting Standards (IFRS) if we want to be credible with our stakeholders. We have to strengthen our Internal Control Systems (ICS) since our external auditors now have to include ICS in the scope of their audit and report thereon under new Swiss regulations.

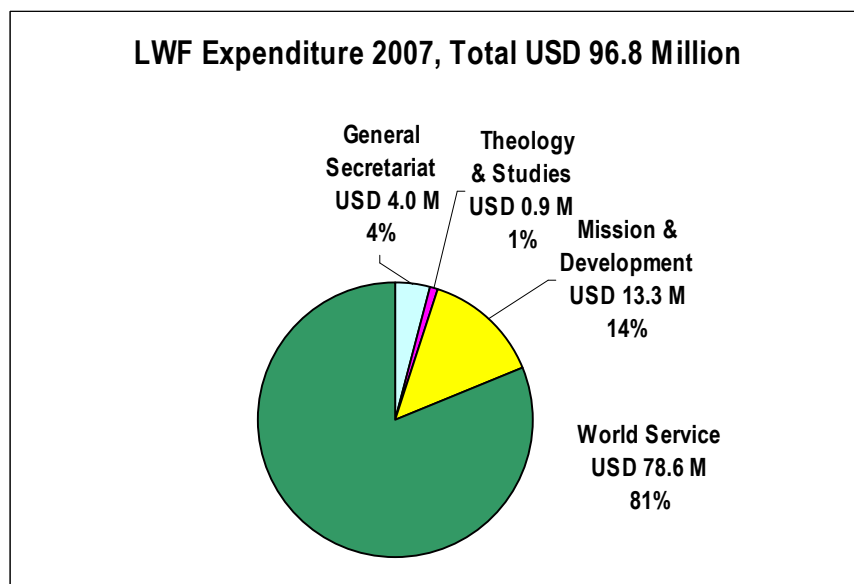
• Financial Result of 2006 and 2007

- 6) Since the last Council meeting was in March 2007 and the accounts for 2006 were not yet audited at that time, we have to review and approve both the 2006 and 2007 Financial Statements at this meeting. We ended the year 2006 with a surplus on the **Geneva coordination budget** of USD 1.2 million due to currency exchange gains. In 2007 we had another positive year. All departments had a surplus as follows: General Secretariat – USD 432,193, DTS – USD 294,504, DMD – USD 614,607, and DWS – USD 840,387. **Thus the total result of the LWF Geneva coordination budget after write-offs showed a surplus of USD 2.2 million.**

- 7) The **program and project budgets** for 2006 and 2007 were mostly balanced, but some write-offs amounting to USD 282,943 in 2006 and USD 319,887 in 2007 were necessary. The reason for this was that funding received was less than expenditure actually incurred. Normally the program income is recognized in proportion to the expenditure incurred. If more funding was received than was used during the year, the unused amount is shown as a liability on the balance sheet.
- 8) The **2007 total income** of the LWF was **USD 100.2 million** compared with USD 91.4 million in 2006 and USD 93.1 million in 2005. The following pie chart shows where the support in 2007 came from. The support from SIDA, Sweden comes directly from the Swedish government for the DWS rehabilitation program in the Balkans.



- 9) The **2007 total expenditure** of the LWF was **USD 96.8 million** compared with 87.8 million in 2006 and USD 92.1 million in 2005. The following pie chart shows how the expenditure was used between the departments. As before, around 80% of the funds were earmarked for the work of the Department for World Service.



- 10) The following two tables give an overview of the financial results in 2006 and 2007 by department:

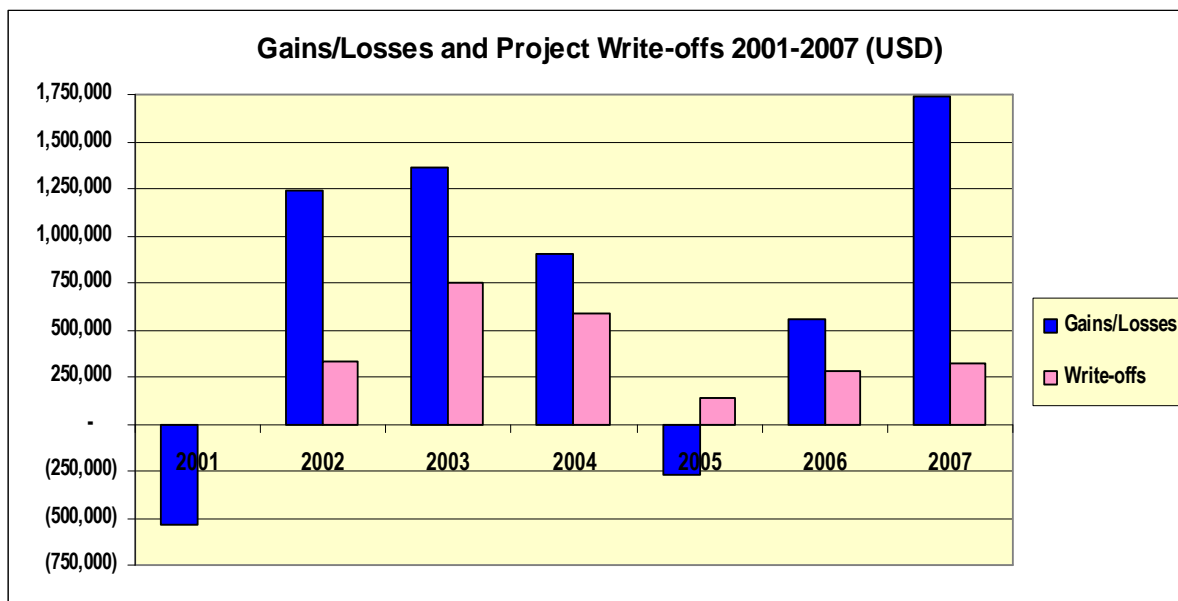
The Summary of Income and Expenditure for the year 2006													
Amounts in USD	General Secretariat		Dept. for Theology & Studies		Dept. for Mission & Development		Dept. for World Service			Total Geneva Coordination	Total Field Coordination	Total Programs & projects	TOTAL LWF
	Geneva coordin.	Programs & projects	Geneva coordin.	Programs & projects	Geneva coordin.	Programs & projects	Geneva coordin.	Field coordin.	Programs & projects				
Income	3,201,003	710,909	844,463	95,355	2,738,890	9,653,246	3,114,607	3,578,835	66,040,637	9,898,963	3,578,835	76,500,147	89,977,945
Expenditure	-2,889,947	-710,909	-764,048	-95,355	-3,063,306	-9,653,246	-3,031,175	-1,469,098	-66,137,826	-9,748,476	-1,469,098	-76,597,336	-87,814,910
Sub-Total	311,056	0	80,415	0	-324,416	0	83,432	2,109,737	-97,189	150,487	2,109,737	-97,189	2,163,035
Project Write-off	-8,187	0	0	0	-82,617	0	-192,139	0	0	-282,943	0	0	-282,943
Financial Result	123,678	0	63,766	0	485,056	0	631,186	0	97,189	1,303,686	0	97,189	1,400,875
Net result	426,547	0	144,181	0	78,023	0	522,479	2,109,737	0	1,171,230	2,109,737	0	3,280,967
Reserves 1.1.	1,305,299	0	267,597	0	756,945	0	5,236,339	2,102,479	0	7,566,180	2,102,479	0	9,668,659
Transitioned Field Programs	0	0	0	0	0	0	0	-310,677	0	0	-310,677	0	-310,677
Transfers and Adjustments	0	0	0	0	926,713	0	1,039,135	2,724,554	0	1,965,848	2,724,554	0	4,690,402
Reserves 31.12	1,731,846	0	411,778	0	1,761,681	0	6,797,953	6,626,093	0	10,703,258	6,626,093	0	17,329,351

The Summary of Income and Expenditure for the year 2007													
Amounts in USD	General Secretariat		Dept. for Theology & Studies		Dept. for Mission & Development		Dept. for World Service			Total Geneva Coordination	Total Field Coordination	Total Programs & projects	TOTAL LWF
	Geneva coordin.	Programs & projects	Geneva coordin.	Programs & projects	Geneva coordin.	Programs & projects	Geneva coordin.	Field coordin.	Programs & projects				
Income	3,136,910	1,085,657	945,607	86,191	3,222,188	9,875,847	3,215,775	2,733,666	73,573,553	10,520,480	2,733,666	84,621,248	97,875,394
Expenditure	-2,931,164	-1,085,657	-779,028	-86,191	-3,431,909	-9,875,847	-3,189,816	-1,485,610	-73,573,553	-10,331,917	-1,485,610	-84,621,248	-96,438,775
Sub-Total	205,746	0	166,579	0	-209,721	0	25,959	1,248,056	0	188,563	1,248,056	0	1,436,619
Project Write-off	0	0	0	0	-15,018	0	-304,869	0	0	-319,887	0	0	-319,887
Financial Result	226,447	0	127,925	0	839,346	0	1,119,297	0	0	2,313,015	0	0	2,313,015
Net result	432,193	0	294,504	0	614,607	0	840,387	1,248,056	0	2,181,691	1,248,056	0	3,429,747
Reserves 1.1.	1,731,846	0	411,778	0	1,761,681	0	6,797,953	6,626,093	0	10,703,258	6,626,093	0	17,329,351
Transitioned Field Programs	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers and Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0
Reserves 31.12	2,164,039	0	706,282	0	2,376,288	0	7,638,340	7,874,149	0	12,884,949	7,874,149	0	20,759,098

- 11) The **Reserves**, i.e. the Net Assets freely available to the LWF amounted to USD 20.8 million at the end of 2007. The target level of these reserves is USD 15 million, which is equal to six months Geneva coordination budget expenditure + 10% of the Program & Project budget. Although the reserves are now above the target level, the situation is not quite as good as it looks, because the old Augusta Victoria Hospital renovation deficit still amounts to USD 5.6 million. Currently this deficit is decreasing slowly, namely by USD 200,000 per year. There are also some pending tax cases in the DWS field programs. The General Secretary has had long and difficult negotiations with the Israeli and Kenyan governments with regard to tax agreements. He will give an update to the Council. If we would have to write off the renovation deficit and also pay retroactive taxes in some field programs, the reserves would then be below the target level. Therefore, although the situation looks good now, we have to keep also the financial risks in mind when assessing the financial status of the LWF.

• Currency Management Is Critical

- 12) The LWF receives income mainly in Euros (EUR), US Dollars (USD), Swedish Crowns (SEK), Danish Crowns (DKK), Norwegian Crowns (NOK), and Swiss Francs (CHF). The expenditure is mainly in USD, EUR and CHF. It is therefore crucial to manage the different currency flows and treasury funds in such a way that currency losses are minimized whilst at the same time trying to maximize the interest gains. The funds are not invested in shares. From the following chart we can see that the Finance Office (OFA) has been quite successful in the last years.



- 13) The 2001-2007 cumulative surplus of currency gains/losses of USD 5 million has actually been essential in stabilizing the budget and in covering the regrettable program/project write-offs. We have even succeeded in increasing the reserves. However, when the USD begins to appreciate, we will inevitably have some currency losses. The Finance office will then try to minimize the negative impact of the stronger dollar.

• Budget Situation of 11th Assembly

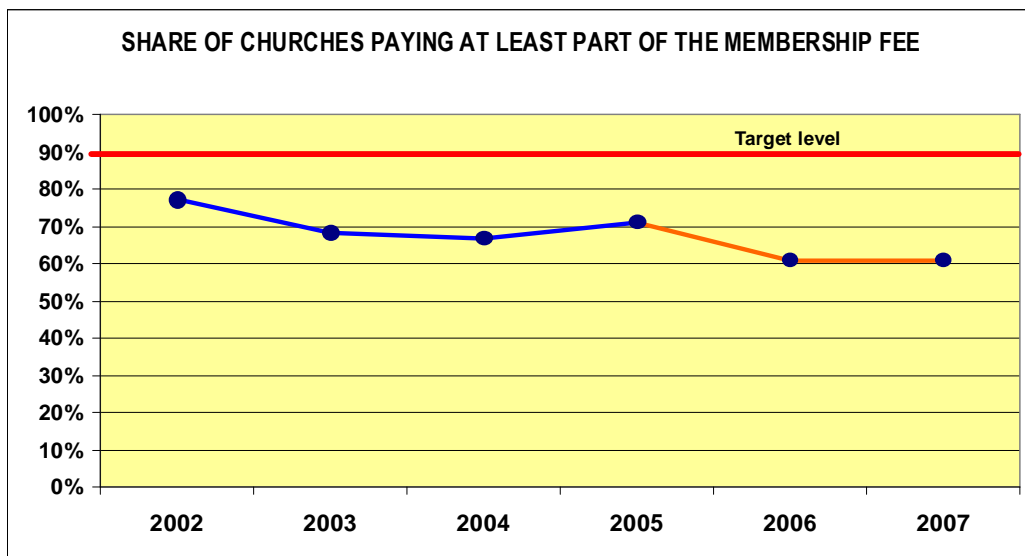
- 14) The 11th Assembly budget frame approved by the Council in 2004 is USD 2.3 million. As of 31 December 2007 the 11th Assembly contributions amounted to USD 1.2 million. The current projection is that the total Assembly contributions will amount to USD 1.9 million and other income USD 250,000, thus making the total income budget of USD 2.15 million. The expenditure budget will have to be adjusted according to this income projection.
- 15) As the actual expenses will to a great extent be in Euros and Swiss Francs, the EUR/USD rate is crucial for a balanced result. The EUR/USD assumption in the budget is 1.3. At the time of writing this report, the rate was 1.55. If the actual average exchange rate will be at this level or only slightly lower, we will have great difficulties in balancing the Assembly budget.

• Geneva Coordination Budget (A-budget) 2008 and 2009

- 16) The A-budget situation is currently better than projected three years ago, especially because the support from the German churches has not decreased as much as previously anticipated. The financial situation of the German churches has improved with the economic pick-up in Germany in the last two years. Partly as a result of this, we expect to have a balanced result this year.
- 17) The current projection of the A-budget for 2009 shows a balanced result. However, a lot depends on the development of the Swiss Franc, Euro and the US Dollar. The Executive Committee may have to adjust the budget when they meet in October.

• Membership Fees

- 18) At the last Council meeting in Lund the church leaders confirmed their commitments to pay the membership fees. The contributions have increased steadily in this decade and amounted to USD 3.2 million in 2007. Part of the increase is caused by a stronger Euro. The following chart shows the development of the percentage of churches paying at least part of the fair membership fee from 2001 to 2007. Normally we receive from around ten churches payments also for the previous years. Therefore the numbers for 2006 and 2007 will probably still improve.



As we can see from the chart, around 70% of the member churches pay the membership fees. However, there are still too many member churches that do not pay even a partial membership fee. On the other hand, some other member churches have increased their contribution to the fair level. However, there is still a lot to be done before we reach the target level of 90% by 2010.

• Staff Welfare Plan – LWF Pension Fund

- 19) The coverage level of the Pension Fund on 1 January 2008 was 110.4%, while the target level is 112%. The investment performance in 2007 was –0.1% mainly due to the poor performance of the Swiss stock market. Nonetheless it was possible to give 1% interest to the members’ accounts for 2007. If the number of staff will reduce considerably in the coming years, the LWF Pension Fund may not be in a position to continue as an independent foundation. If this will be the case, there are other options for arranging the pensions for the staff. The Board of the Pension Fund is following up the development.

• Finance Office Related Implementation of the Secretariat Strategic Plan

- 20) The following table shows the status of the implementation of those goals of the strategic plan where the Finance Office has the main responsibility.

Strategic Goal	When	Status
The maximum 40% financial support level from any one agency, foundation or company to a program/project will be reviewed.	Mar 2007	Done. The updated Fundraising Guidelines do not mention the 40% level, but emphasize that the priorities and programmatic goals of the LWF must drive the work, not the funding possibilities.
All donors give at least 5% of the program/project support to the Geneva coordination of the respective programs/projects	Mar 2007	Partially done. The Fundraising Guidelines say, “Normally at least 5% of the funding should be allocated to the Geneva coordination and administration”. Compliance and monitoring needed.

The units will have their own fundraising action plans.	Apr 2007	Partially done, on-going. Follow-up by the SWT on Finances & Human Resources.
There is a common understanding on the principles and procedures of the ABC between the Secretariat and the funding partners.	Jun 2007	Partially done, on-going. SCWS has agreed on certain principles. DMD partners have discussed this, but they have different approaches. A compromise solution is being used for the time being.
The ABC method has been assessed	Oct 2008	Still to be done. Oct 2008 probably too early. Follow-up by the SWT on Finances & Human Resources.
More than 90% of the member churches are paying membership fees.	Dec 2010	On-going. Related to the awareness and ownership campaign. Reminders sent annually. DMD is playing a key role in communion building.
The LWF Endowment Fund (EF) reaches CHF 20 million	Jun 2017	Goals established for every member church. EF Board members together with DMD Area Secretaries are following up. The German churches have already agreed to pay their share by 2017.
Upgrade the secretariat with modern technology in its IT operations		On-going. More laptops & new PCs every year, new office suite installed in spring 2008. Implementation within the IT Consortium of the Ecumenical Center. Follow-up by the Working Group on IT & Database.
Creation of a joint and unified Web-based address database together with other organizations in the Ecumenical Center in Geneva		The new system based on FileMaker Pro has been developed. Follow-up by the Working Group on IT & Database.
Creation of a unified program/project management database		The new system based on FileMaker Pro has been developed. Follow-up up by the Working Group on IT & Database.

• 2007 Accounts in Compliance with IFRS

- 21) This is the first time the LWF accounts have been prepared according to International Financial Reporting Standards (IFRS). It has taken three years to adjust the accounts and systems to be in compliance with the IFRS. Now we can show the stakeholders an internationally recognized standard presentation of accounts, which should enhance the credibility of the Secretariat.

• Managing Financial Risks – LWF Internal Control System

- 22) The Internal Control System (ICS) is one of the key management tools at an organization's disposal for controlling risk. An effective ICS should be seen as an integral part of good organizational governance. The ICS covers the entire range of established procedures, methods and controls in an organization for the purpose of ensuring the proper functioning of activities. Types of risk vary between organizations depending upon the activities undertaken, volume in monetary terms, etc. The ICS must therefore be tailored to ensure that the major risk areas are covered.
- 23) Changes in Swiss law focus on the internal controls associated with the risks connected to bookkeeping and financial reporting. The external auditors, PricewaterhouseCoopers (PWC) will from now on include the ICS in the scope of the audit. The new Swiss legislation requires PWC to issue a report to the Council containing an assessment on the accounting and on the ICS in the LWF. The notes to the financial statements must also include detailed comments on the conduct of a risk assessment. Therefore the ICS is one of the main items on the Finance Committee's agenda this time.
- 24) In light of the new legislation and as a continuing process in the review of systems within the organisation, the LWF undertook the following:
- ✓ Internal Control System Principles were established for the LWF covering: Definition and purpose, objectives, method & basic approach, scope, control environment, processes, risks & controls, assessment, and responsibilities.

- ✓ An Inventory Table of the major risks and controls was prepared covering: Procurement, travel costs, physical assets, salaries, finance/treasury, and information technology.
 - ✓ Detailed Risk Assessment Schedules were then prepared for each of the above processes indicating for each risk: the control objectives, the controls, staff responsible, frequency of control, type of control, effectiveness, and traceability.
 - ✓ An Evaluation Questionnaire for controls carried out was completed dealing with: the control environment, information & communication, monitoring, and risk assessment and control activities. Assessment scores were given together with comments and conclusions.
- 25) The entire ICS package was then shared with the departments, discussed, reviewed and amended via the Staff Working Team on Finance, submitted to the Treasurer, General Secretary and Cabinet and given to PricewaterhouseCoopers for the basis of the audit review under the new Swiss legislation.

• Conclusion

- 26) As noted earlier, there are a number of areas which may have a potential adverse financial impact upon the LWF. These include the Augusta Victoria Hospital old renovation deficit, pending tax cases, the Assembly budget, and future currency movements. The Finance Committee will discuss ways of limiting the LWF exposure to such risks.
- 27) At this meeting we as the Council are required to:
- Approve the financial statements for 2006 and 2007
 - Approve the Geneva Coordination budget for 2009
 - Appoint the Auditors for the years 2008 and 2009
 - Approve the membership fees for 2009 and 2010
 - Approve the LWF Investment Principles
 - Approve the LWF Internal Control System Principles
 - Approve the Summary of Needs for 2009-2011
- 28) Coming back to the theme at beginning of my report: The most significant global trend may be the new awareness of climate change right now. I believe our council motto "Melting Snow on Mount Kilimanjaro" is a sign of our own growing awareness. Certainly we have to discuss our own impact on climate change. Wouldn't it then be wise to invest money into CO₂-compensation for all flight-travel of the whole LWF? And may be that could as well be done through a solar energy plant on the roof of the Ecumenical Center in Geneva or through projects of DWS somewhere in our field programs.